



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Carl W. Mosher

**SUBJECT: CAPITAL PROJECTS AND
SERVICES FUNDED BY SEWER
SERVICE AND USE CHARGE
AND STORM SERVICE RATE
INCREASES**

DATE: May 24, 2005

Approved	/s/	Date	05/26/05
----------	-----	------	----------

RECOMMENDATION

Accept this report providing additional information regarding the proposed 4.5% rate increases in the Sewer Service and Use Charge Fund and the Storm Sewer Operating Fund.

BACKGROUND

During the May 16, 2005 Budget Study Session, Councilmember Reed asked for information regarding the capital projects and services funded by the proposed 4.5% Sewer Service and Use Charge (SSUC) and Storm Service rate increases. In response, this memo has been prepared to provide a detailed explanation.

FY 2005-06 is the second year of a three-year rate increase strategy approved by Council during the last budget cycle to provide additional funding for the Sewer Service and Use Charge (SSUC) Fund.

During the last budget cycle, public notices of the proposed rate increase for last year were mailed on May 7, 2004, to over 213,000 Sewer Service and Use residential and non-residential customers advising them of the proposed fee increase. The notice also covered proposed SSUC increases for additional amounts of up to 4.5% annually for services beginning July 1, 2005, and July 1, 2006. The recommended rate increase for FY 2005-06 is 4.5%.

This year on May 6, public notices were mailed to over 213,000 Storm Sewer Service residential and non-residential customers advising them that the Administration would recommend to Council an average Storm Sewer Service Charge (SSSC) rate increase of 4.5% for FY 2005-06, and that a public hearing would be held on June 21, 2005. If approved, the rate increases will become effective July 1, 2005.

ANALYSIS

SEWER SERVICE AND USE CHARGE

The Sewer Service and Use Charge Fund pays for sewer operations and maintenance, sewer rehabilitation, sewage treatment, maintenance and rehabilitation of the sewage treatment plant, and debt service related to the South Bay Water Recycling system construction. These expenses total \$77.1 million for 2005-06.

The proposed Sewer Service and Use Charge 4.5% rate increase is projected to generate an additional \$3.2 million in revenue in FY 2005-06, bringing total revenues to \$75.2 million.

The Environmental and Utility Services (E&US) CSA developed a three-year rate strategy, beginning in 2004-05, to generate additional revenue to address the aging infrastructure of the Treatment Plant and the sanitary sewer system. The Sewer Service and Use fee funds over 40 projects, varying in scope and size, in the Treatment Plant and Sanitary Sewer Capital Funds. The most significant infrastructure investments in the 2006-2010 Five-Year Capital Improvement Program that are supported by the three-year rate strategy include:

- Plant Reliability Improvements – Increases the Plant's capacity to handle high flows resulting from wet weather and improves the reliability of several of the Plant's critical systems including the headworks, filtration, and major pumping stations.
- Alternative Disinfection – Construction of facilities to replace the gaseous chlorine and sulfur dioxide system with sodium hypochlorite and sodium bisulfite system.
- Inflow and Infiltration – Identifies and rehabilitates sanitary sewers and manholes that have groundwater or storm water penetration to reduce influent into the Treatment Plant.
- Fourth Interceptor, Phases VI and VII – Construction of approximately two miles of sanitary sewer pipes from Fourth and Commercial Streets to Seventh and Empire Streets.
- Edenvale Sanitary Sewer Supplement, Phase VA and VB– Construction of over four miles of sanitary sewer pipes in the Edenvale Area. This project provides sewer capacity and allows for continued economic development in Edenvale and Coyote Valley.

In order to fund the Plant Reliability Improvements project, a number of capital projects at the Plant and in the Sanitary Sewer Program were delayed, including the \$50 million Plant Electrical Reliability Improvements Project, now scheduled to commence in 2008-09.

If the proposed rate increase is not adopted, the Electrical Reliability Improvements Project and completion of the North San Jose Interceptor System, as well as other projects, would be delayed even further.

ANALYSIS (CONT'D.)

STORM SEWER SERVICE CHARGE

The Storm Sewer Operating Fund pays for storm sewer operations, maintenance and rehabilitation, pollution control, permit compliance activities, and transfers to the Storm Sewer Capital Fund for infrastructure improvements. These expenses total \$16.2 million for 2005-06.

The proposed Storm Sewer rate increase of 4.5% is projected to provide an additional \$652,000 in FY 2005-06, bringing total revenues to \$15.2 million.

The E&US CSA developed a three-year rate strategy, beginning in 2005-06, to generate additional revenue to address increasing regulatory compliance activities as well as the aging infrastructure of the storm sewer system. In order to address recent permit requirements, staffing is proposed for 2005-06 to implement the new "C3" Redevelopment and New Development Stormwater permit provisions. These mandated requirements and operating costs are funded as the first priority. As a result, failure to implement the proposed rate strategy would result in a reduction to the storm capital program. The most significant infrastructure investments supported by the three-year rate strategy include:

- Albany-Kiely Storm Drainage Improvement, Phase II, III, and IV – Upgrades the existing capacity of the storm drainage system to meet city standards. This project increases storm drain capacity, maintains system reliability, and minimizes maintenance costs in the area.
- Minor Neighborhood Storm Drain Improvements – Construction of new inlets and laterals to address drainage problems on neighborhood streets and improve water quality of runoff collected by the storm drainage system.
- Storm Pump Station Rehabilitation and Replacement – Rehabilitates or replaces aging storm pump stations to reduce operating costs, enhance the efficiency of the storm sewer system, and minimize the risk of flooding during storm events.

If the proposed rate increase is not adopted, the above listed projects would be delayed or cancelled, except Albany-Kiely, Phase II which has already been awarded. Additionally, the following projects would likely be delayed: Chateau Drive, Phase I and II, and Willow Glen-Guadalupe, Phase III.

CONCLUSION

The Proposed Budget contains a recommendation that the City Council adopt the Sewer Service and Use Charge and Storm Sewer 4.5% rate increases. These rate increases are part of multi-year strategies developed to address increases in operating costs and aging infrastructure issues, while maintaining annual rate increases at modest levels. In developing these rate strategies, the E&US CSA has evaluated present and future unavoidable increases in operating costs, the age

HONORABLE MAYOR AND CITY COUNCIL

May 24, 2005

Subject: Sewer Service and Use Charge Rate Increase Results

Page 4

CONCLUSION (CONT'D.)

and estimated life of existing infrastructure, and future infrastructure needs to accommodate system and population growth.

COORDINATION

This MBA has been coordinated with Public Works, Transportation, and the City Attorney's Office.

/s/

Carl W. Mosher

Director, Environmental Services